

**Lou Tisler, Executive Director**  
**Neighborhood Housing Services of Greater Cleveland**  
**Before the**  
**U.S. House of Representatives Committee on Financial Services**  
**Subcommittee on Housing Community Opportunity**  
**Foreclosure Problems and Solutions: Federal, State, and Local Efforts to Address the**  
**Foreclosure Crisis in Ohio**  
**June 16, 2008**

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Good morning, Chairwoman Waters, Ranking Member Capito and Members of the Subcommittee. My name is Lou Tisler, and I am the Executive Director for Neighborhood Housing Services of Greater Cleveland (NHSGC).

I am here today to testify regarding the efforts of Neighborhood Housing Services of Greater Cleveland, and its partners, in addressing the foreclosure crisis in State of Ohio. I will also discuss both local and national strategies that have been developed to manage the rise in foreclosures including homeownership counseling both pre and post purchase. Finally, I will also talk about the importance of partnerships in the addressing the issue of foreclosures because there is no one solution.

**Overview of Neighborhood Housing Services of Greater Cleveland**

Neighborhood Housing Services of Greater Cleveland (NHSGC) is a not-for-profit, community development corporation incorporated in July 1975 as one of the charter organizations of NeighborWorks® America, a network of excellence consisting of 236 organizations working in 4,400 urban, suburban and rural communities in economic and community development across the nation. We are also a member of the National NeighborWorks Association, and on behalf of the National NeighborWorks Association I would like to thank the Chairwoman's for her leadership and commitment to neighborhood stabilization.

**MISSION STATEMENT**

Neighborhood Housing Services of Greater Cleveland provides ongoing programs and services for achieving, preserving, and sustaining the American dream of home ownership.

**VISION STATEMENT**

Neighborhood Housing Services of Greater Cleveland is a premier organization for assisting individuals and strengthening communities by supporting sustainable homeownership. Working collaboratively with entities from both the public and private sector, NHSGC will continue to be recognized for being efficient and effective in preparing residents for successful homeownership and preserving homeownership through home repair lending and support services.

NHSGC was established to provide home repair programming and home ownership education to six targeted neighborhoods in the City of Cleveland. This agency began with primary support from NeighborWorks® America, the City of Cleveland and local lenders. Today, NHSGC receives support from NeighborWorks® America, the State of Ohio, Cuyahoga County, the City of Cleveland, local foundation support, financial institutions, and the insurance and real estate

development industries. NHSGC is the fifth chartered organization with NeighborWorks® America receiving training, financial and technical assistance through our affiliation.

NHSGC's programs are the HomeOwnership Promotion - educational classes and loans for people interested in becoming homeowners and HomeOwnership Preservation Program- loan products, post-purchase counseling, foreclosure assistance to those homeowners interested in maintaining and preserving, not only the physical structure of the home, but also the ability to retain ownership. Counseling services are required in order to access any NHSGC program. In the pre-purchase curriculum, NHSGC staff work with individuals to immerse them in the home buying process, secure better credit and become "mortgage ready". Post-purchase counseling includes home maintenance, refinance clinics, budgeting classes and foreclosure prevention.

NHSGC has launched several strategic alliances, programs and services that significantly enhanced the growth and reputation of the organization with expansion of limited programs and services offered in Lorain, Erie and Huron counties. The foundation has been set to grow NHSGC into one of the premier NeighborWorks® organizations, not only in the Great Lakes region, but across the nation.

**Organizational Strengths:** NHSGC's strengths, which lead to numerous opportunities to provide additional client services, are three fold, consisting of a highly regarded, knowledgeable and committed staff; a board structure that is representative and responsive to the macro environments; and the organizational credibility within our industry.

One of our most valuable partnerships is with the community development corporations, organizations and municipalities throughout the region. Most of the staff and board are not only work within northeast Ohio, but also live within the city of Cleveland and other northeast Ohio communities. This allows NHSGC to solicit feedback, receive input/suggestions/constructive criticism of programs and services administered by NHSGC.

### **Impact of Foreclosures and Vacant Properties in Cleveland**

The City of Cleveland has been denoted in the recent past as the most impoverished city in the United States. Ohio has been denoted the state with the one of the highest rates of foreclosures in the United States. The impact of foreclosures and vacant properties in Cleveland has been substantial, as it has been across the State of Ohio. According to ReBuildOhio's February 2008 report "\$60 Million and Counting: The Cost of Vacant and Abandoned Properties to Eight Ohio Cities", there are over 25,000 vacant and abandoned properties in eight Ohio cities (Cleveland, Columbus, Dayton, Ironton, Lima, Springfield, Toledo, and Zanesville); \$15 million of additional costs in annual city services; and \$49 million in cumulative lost property tax revenues to local governments and school districts.

Adding to this impact is the continued stream of requests to the Cuyahoga County Treasurer's office for property reassessments, which will continue to impact, exponentially, the lost property tax revenues that provide funding for city services and local educational systems.

As the state with one of the highest rate of mortgage defaults in the nation, Ohio is facing a grim future for the vitality of its communities.

The Mortgage Bankers Association reported the following statistics at the end of the fourth quarter of 2007:

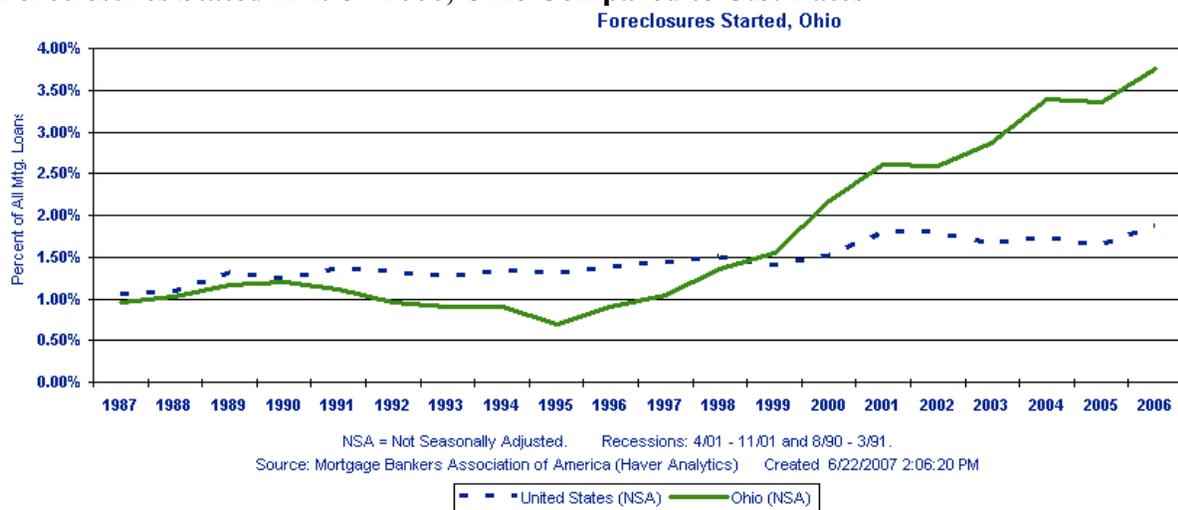
### Comparison of Mortgage Default Rates

Type of Loan	Percent of Loans in Foreclosure in Ohio	Percent of Loans in Foreclosure in United States	Ratio of Ohio Rate Compared to National Rate	Ohio Ranking vs. Other States
All Mortgages	3.88	2.04	1.90	#1
Prime Mortgages	1.85	0.96	1.92	#1
Subprime Mortgages	13.69	8.65	1.58	#1
FHA Mortgages	4.70	2.34	2.01	#2
VA Mortgages	3.31	1.12	2.96	#1

Source: National Delinquency Surveys, Fourth Quarter 2007. Mortgage Bankers Association.

Long-term annual analysis shows that Ohio’s foreclosure rates have more than doubled since 1999, as shown in the chart below. The largest jump was in 2000 and 2001, with significant jumps in 2003, 2004, and 2006 as well. Ohio’s foreclosure rate in 2006 was twice the national rate and over four times the state’s 1995 rate.

### Foreclosures Stated in 1987-2006, Ohio Compared to U.S. Rates



Source: FDIC RECON ([www2.fdic.gov/recon](http://www2.fdic.gov/recon)), from Mortgage Bankers Association’s National Delinquency Survey

There are several factors that, in combination, form a likely explanation for the rise in foreclosures and sheriff sales in Ohio in recent years.

First, is the increasing prevalence of sub-prime loans, which, as shown earlier in this report, are more likely to enter into foreclosure proceedings. Policy Matters Ohio reports that in 1999 Ohio

had the third-highest sub-prime share of refinancing loans in the nation. This is likely to hit racial minorities the hardest. According to analysis of 1998 HMDA data by Policy Matters Ohio, sub-prime lenders accounted for two-thirds of the top 50 refinancing lenders in Ohio's minority census tracts. Of the 50 Ohio sheriff departments responding to Policy Matters' 2005 survey, 31 ranked predatory lending (which commonly uses sub-prime loans) as the highest contributing factor to foreclosures.

The second factor is rising consumer debt, including the use of credit cards, which has been pervasive throughout the U.S.

Third, is the weak economy in Ohio. The state's housing prices have not increased as rapidly in recent years as other states in the U.S. (between 2% and 5% annually in Ohio in 2001-06), meaning that equity gains for new homeowners have been slow to nonexistent. At the same time, household income growth in Ohio has also been sluggish (between 1% and 4% annually in 2001-2006).

Average household incomes have been hurt in part due to the unemployment rate in Ohio, which increased from 4% in 2000 to over 6% in 2004 and 2005. Ohio's unemployment rate has eased slightly since 2005, but the January 2007 rate of 5.3% was still the sixth highest in the nation. Between the official start of the recession in March 2001 and the end of December 2003, Ohio lost 236,700 jobs, of which two-thirds were in the manufacturing sector. Together, these factors add up to a precarious financial situation for many of Ohio's households.

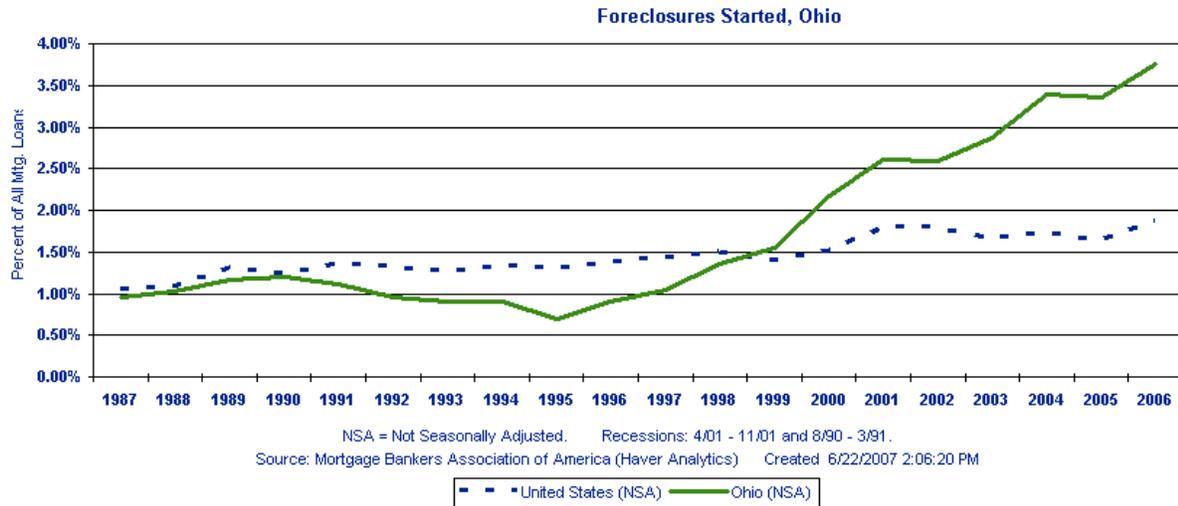
## Ohio's foreclosure rate has more than doubled since 1999 and continues to climb

Ohio's foreclosure rate continued to climb in 2007. Quarter-by-quarter statistics shows that the foreclosure rate jumped in the third quarter of 2007, after a slight dip the previous quarter. The Ohio-US gap remains substantial, with Ohio's rate about 0.4% higher than the national rate.



Source: FDIC RECON ([www2.fdic.gov/recon](http://www2.fdic.gov/recon)), from Mortgage Bankers Association's National Delinquency Survey

Long-term annual analysis shows that Ohio's foreclosure rates have more than doubled since 1999, as shown in the chart below. The largest jump was in 2000 and 2001, with significant jumps in 2003, 2004, and 2006 as well. Ohio's foreclosure rate in 2006 was twice the national rate and over four times the state's 1995 rate.



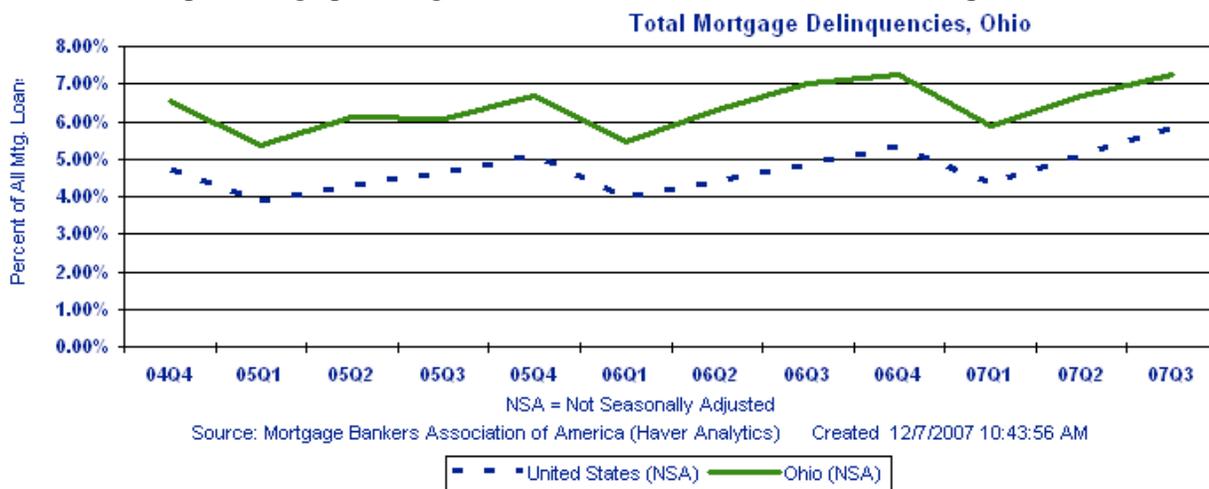
Source: FDIC RECON ([www2.fdic.gov/recon](http://www2.fdic.gov/recon)), from Mortgage Bankers Association's National Delinquency Survey

The non-profit organization Policy Matters Ohio has done research confirming that the number of foreclosures filed in Ohio has more than quadrupled since 1995, from 17,000 in 1995 to 79,000 in 2006. This represents an increase of 24% in just the past year from 2005 to 2006. The 2006 figure represents 1 foreclosure filing for every 145 people or roughly every 58 households in the state.

Note that these foreclosure filing rates, which measure new foreclosure filings, are not exactly the same as the "foreclosure inventory" reported in MBA's National Delinquency Survey. The foreclosure inventory is generally less because foreclosure proceedings usually last less than a year. In other words, at any given time there are fewer loans in foreclosure proceedings than will enter foreclosure over the course of an entire year. For example, the national foreclosure inventory was 1.0% at the end of 2006, while over the course of 2006 about 1.9% of national loans entered foreclosure. Ohio's foreclosure inventory at the end of 2006 was 3.4%, while over the course of the year about 3.8% of Ohio's loans entered foreclosure.

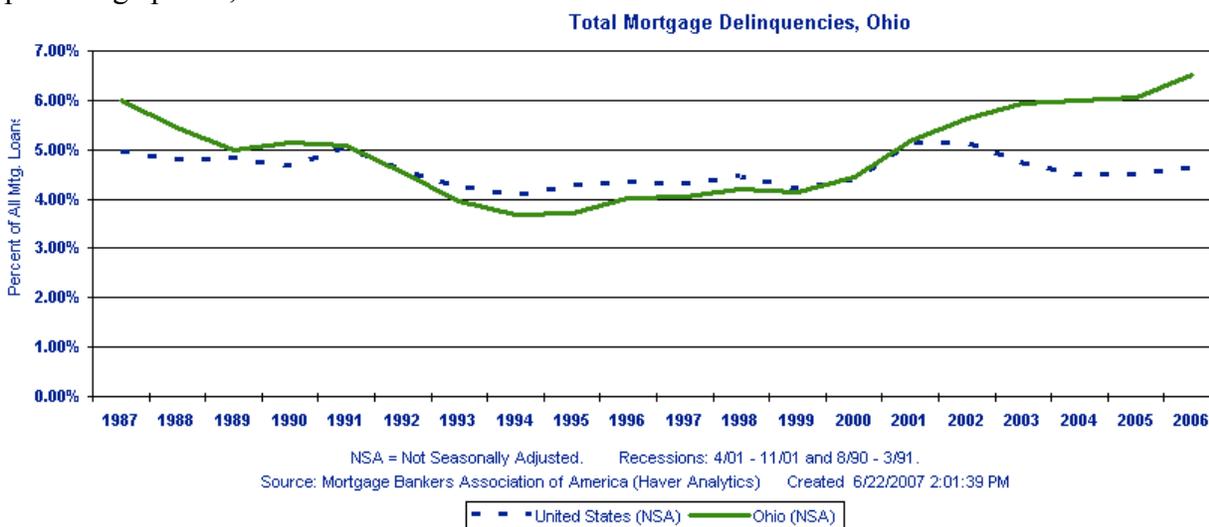
## Ohio's delinquency rate continues to rise

The delinquency rate (the percentage of loans more than 30 days past due) is an indication of loans that may be in danger of foreclosure. As with the foreclosure rate, Ohio's delinquency rate rose in the third quarter of 2007, as shown in the graph below. The state's delinquency rate remained one percentage point higher than the national rate at the end of September 2007.



Source: FDIC RECON ([www2.fdic.gov/recon](http://www2.fdic.gov/recon)), from Mortgage Bankers Association's National Delinquency Survey

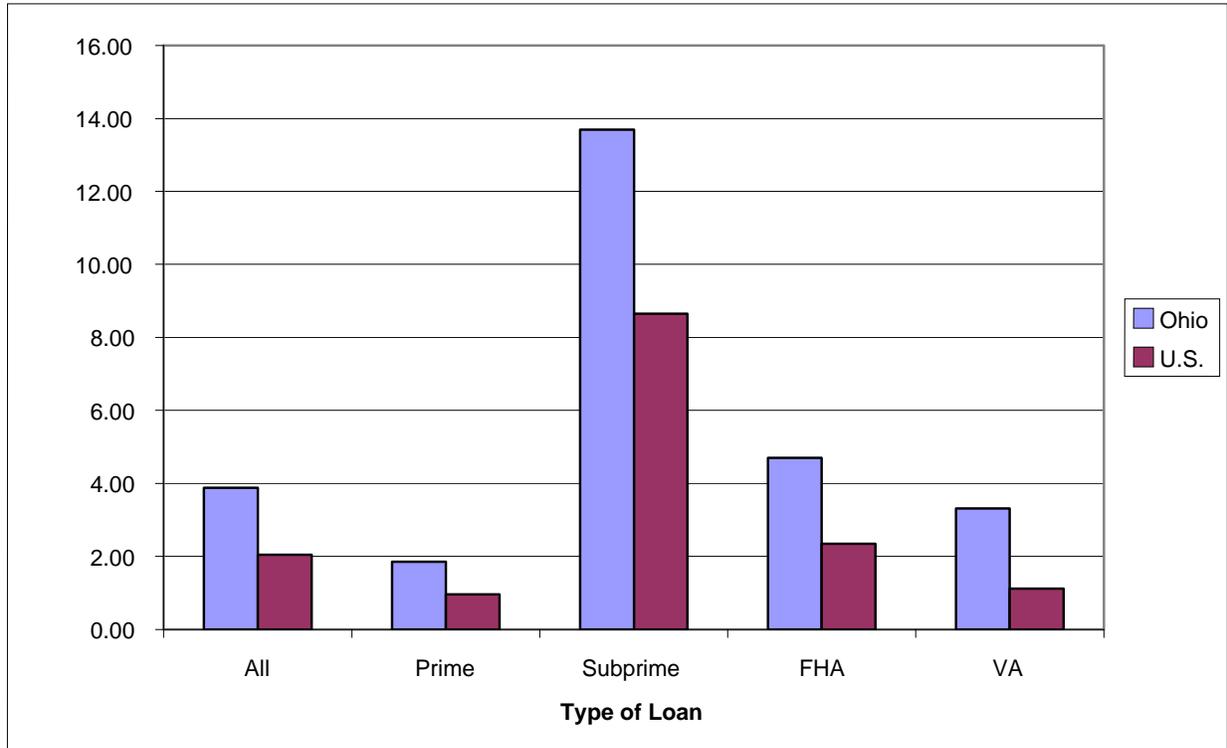
Year-by-year analysis shows that Ohio's delinquency rate increased in the past two decades, from a low of about 3.8% in 1994 to just over 6.5% in 2006, as shown in the chart below. While the national delinquency rate dropped after 2001, Ohio's rate continued to climb and in 2005 was about 1.5 percentage points higher than the national rate. This gap widened in 2006 to nearly 2 percentage points, as the national rate increased but Ohio's rate increased faster.



Source: FDIC RECON ([www2.fdic.gov/recon](http://www2.fdic.gov/recon)), from Mortgage Bankers Association's National Delinquency Survey

## Foreclosure rates are highest for sub-prime loans

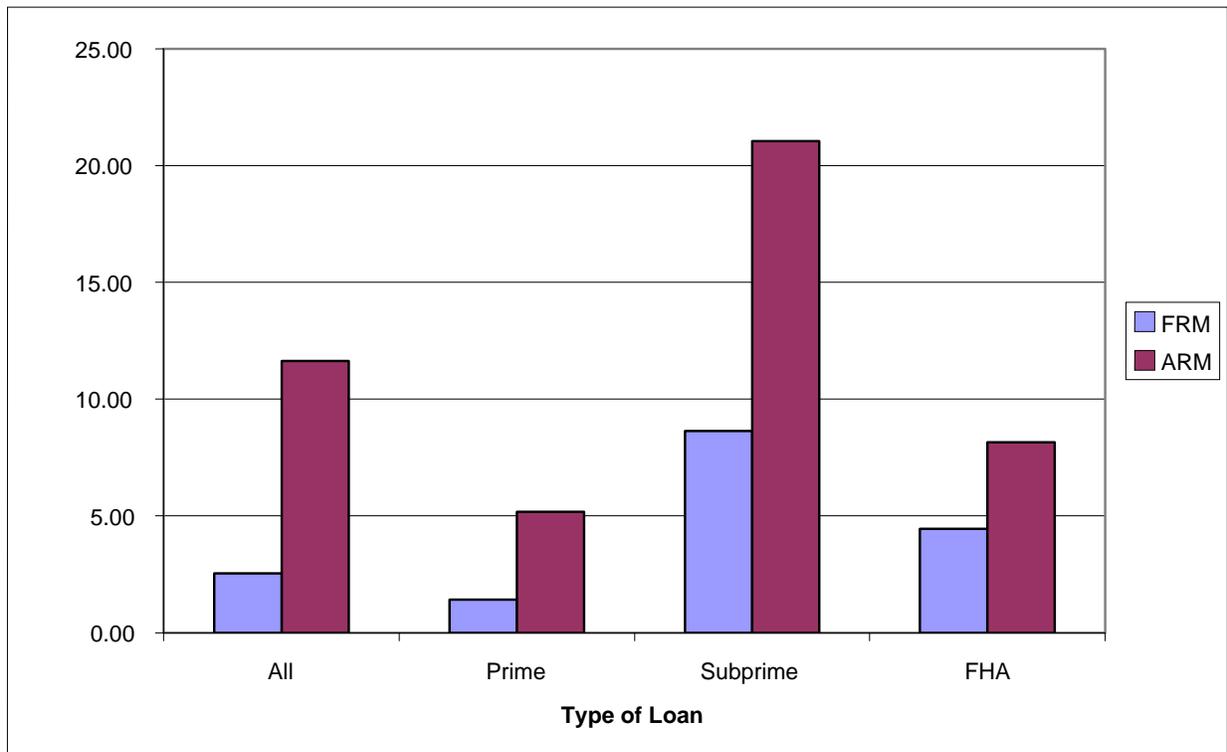
Foreclosure rates (in this case, the foreclosure inventory) are higher for subprime mortgages than other types of mortgages, both nationally and in Ohio. As of 31 December 2007, subprime loans in Ohio were about 7.4 times as likely to be in foreclosure than were prime loans. Subprime loans made up 14% of the state's mortgages but 50% of its foreclosures. FHA and VA mortgages were also much more likely to be in foreclosure than prime loans. Ohio's foreclosure rates are higher than the nation's foreclosure rates, ranging from 1.6 times the national rate for subprime loans to 3 times the national rate for VA loans.



Source: Mortgage Bankers Association, National Delinquency Survey, Fourth Quarter 2007

## Adjustable rate mortgages have much higher foreclosure rates

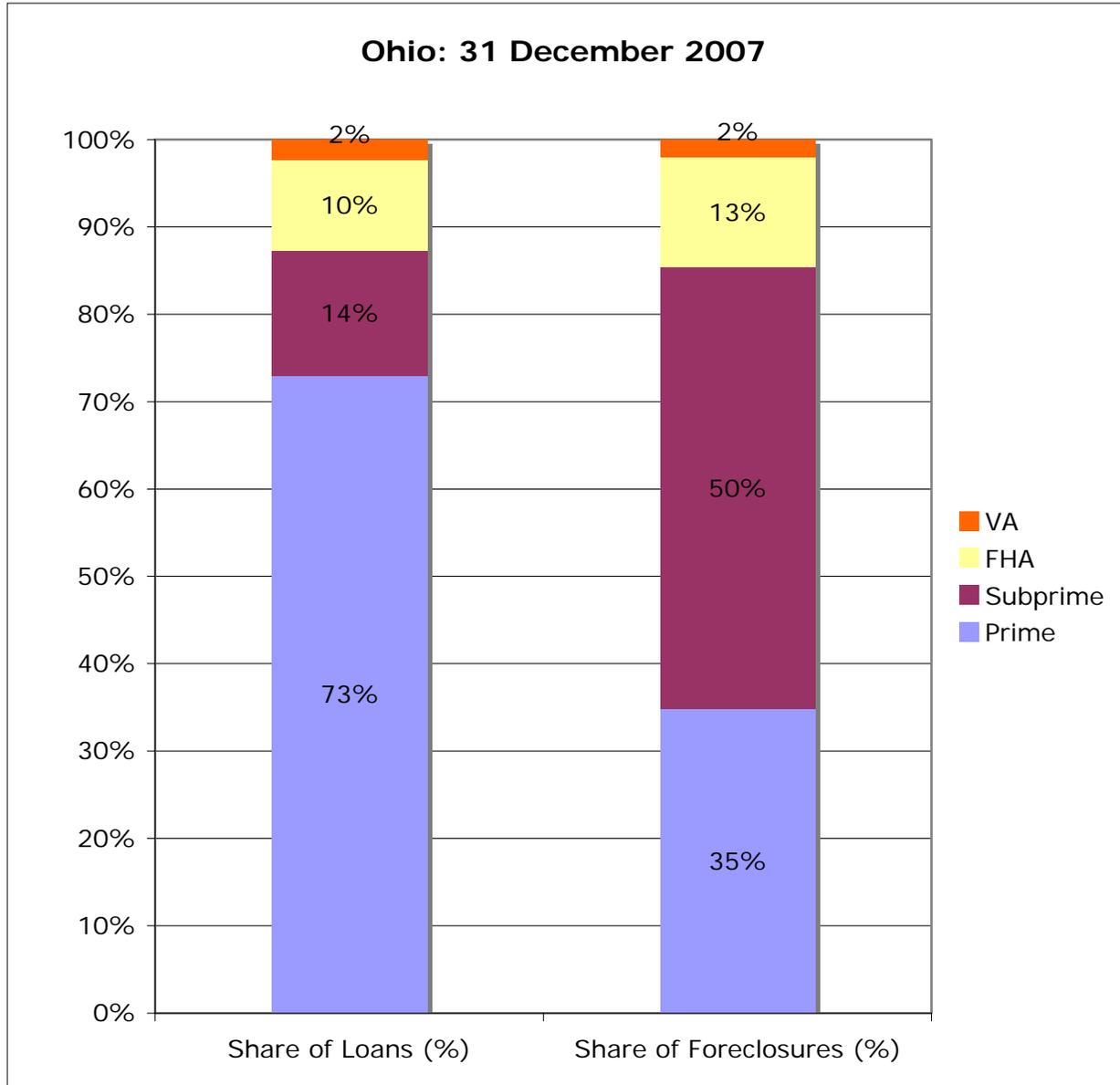
Adjustable rate mortgages (ARM) are much more likely to be in foreclosure proceedings than fixed rate mortgages (FRM). As of 31 December 2007, subprime ARMs in Ohio were over 2.4 times as likely to be in foreclosure than subprime FRMs, as shown in the chart below. Prime and FHA ARMs were also much more likely to be in foreclosure than their FRM counterparts. For all of Ohio's mortgages combined, ARMs are about 4.6 times as likely to be in foreclosure than FRMs. This ratio is so high because adjustable-rate mortgages are disproportionately subprime (which have higher foreclosure rates), while fixed-rate mortgages are disproportionately prime (which have lower foreclosure rates). About 41% of Ohio's subprime loans are ARMs, while only 11% of prime loans are ARMs. In other words, the higher likelihood of foreclosure for ARMs is exacerbated by the frequent use of ARMs with subprime loans, which are already relatively risky.



Source: Mortgage Bankers Association, National Delinquency Survey, Fourth Quarter 2007

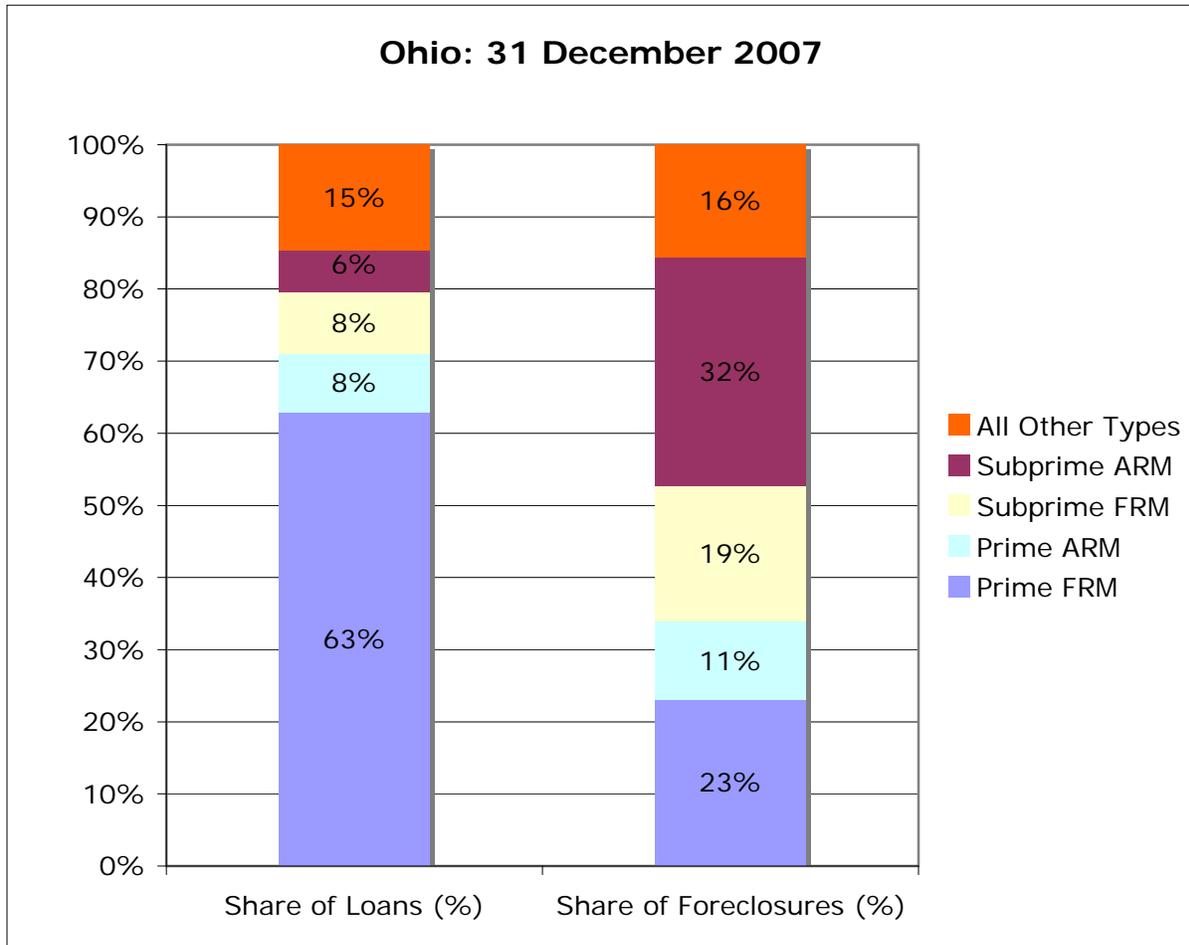
## Subprime and ARM loans are over-represented in foreclosure

One outcome of the higher foreclosure rates for subprime loans is that, while they make up only 14% of Ohio's mortgages, they are responsible for 50% of the state's foreclosure inventory, as shown in the chart below. Prime loans, in contrast, contribute only 35% of Ohio's foreclosures despite making up 73% of the state's mortgages.



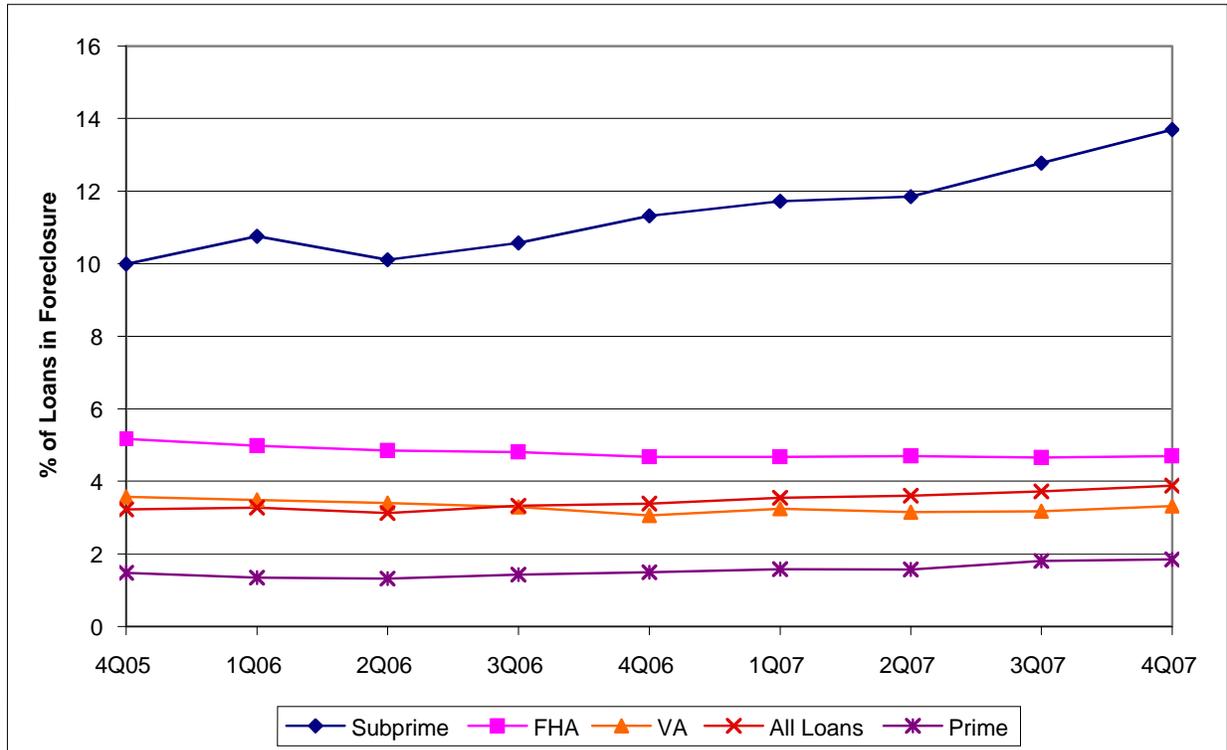
Source: Mortgage Bankers Association, National Delinquency Survey, Fourth Quarter 2007

This pattern is more pronounced when we look at subprime ARMs, which make up the largest share of foreclosures (32%) of any loan type, despite being only a small fraction (6%) of all mortgages. In contrast, prime FRMs make up 63% of all mortgages but contribute only 23% of foreclosures.



Source: Mortgage Bankers Association, National Delinquency Survey, Fourth Quarter 2007

From 31 December 2005 through 31 December 2007, the foreclosure inventory for Ohio's subprime loans increased nearly four percentage points, while the inventory for other types of loans remained fairly static. The foreclosure inventory for FHA and VA loans eased slightly during the past two years, around half a percentage point.



Source: Mortgage Bankers Association, National Delinquency Survey, various quarters

## Ohio leads U.S. in foreclosure inventory for nearly all types of loans

As of 31 December 2007, Ohio had the highest foreclosure inventory of all 50 states for prime, subprime, and VA loans, and it was second only to Michigan for FHA loans.

All			Prime			Subprime			FHA			VA		
State	%	State Rank	State	%	State Rank	State	%	State Rank	State	%	State Rank	State	%	State Rank
									Michigan	5.49	1			
<b>Ohio</b>	<b>3.88</b>	<b>1</b>	<b>Ohio</b>	<b>1.85</b>	<b>1</b>	<b>Ohio</b>	<b>13.69</b>	<b>1</b>	<b>Ohio</b>	<b>4.70</b>	<b>2</b>	<b>Ohio</b>	<b>3.31</b>	<b>1</b>
Alaska	0.67	50	Washington	0.32	50	Alaska	2.47	50	Alaska	0.62	50	Utah	0.39	50
U.S.	2.04		U.S.	0.96		U.S.	8.65		U.S.	2.34		U.S.	1.12	

Source: Mortgage Bankers Association, National Delinquency Survey, Fourth Quarter 2007

## Ohio's new foreclosure filing rates are among the nation's highest

The foreclosure filing (or “foreclosures started”) rate for the most recent quarter (October – December 2007) shows the percentage of loans that entered foreclosure during that time. With its focus on the most recent quarter's filings, this rate reflects more recent trends than the foreclosure inventory, which includes loans that entered foreclosure in the previous two to three quarters.

Ohio still ranks high in terms of foreclosures started in the most recent quarter, but not as high as with the foreclosure inventory. This indicates that a few other states' foreclosure rates are increasing more rapidly than Ohio's. Over time, if this trend continues, it should be reflected in the foreclosure inventory.

All			Prime			Subprime			FHA			VA		
State	%	State Rank	State	%	State Rank	State	%	State Rank	State	%	State Rank	State	%	State Rank
Nevada	1.54	1	Florida	0.8	1	Rhode Island	5.43	1	Michigan	1.88	1	Michigan	1.05	1
<b>Ohio</b>	<b>1.15</b>	<b>5</b>	<b>Ohio</b>	<b>0.57</b>	<b>6</b>	<b>Ohio</b>	<b>3.95</b>	<b>11</b>	<b>Ohio</b>	<b>1.49</b>	<b>2</b>	<b>Ohio</b>	<b>0.87</b>	<b>2</b>
N. Dakota	0.25	50	Hawaii	0.13	50	Alaska	0.97	50	N. Dakota	0.13	50	Hawaii	0.21	50
U.S.	0.88		U.S.	0.43		U.S.	3.71		U.S.	0.95		U.S.	0.43	

Source: Mortgage Bankers Association, National Delinquency Survey, Fourth Quarter 2007

## Largest counties have high foreclosure rates

RealtyTrac compiled county-level data on foreclosure filings for the month of December 2007, including all phases of foreclosure (default, auction, and real-estate-owned). The table below shows that most large metropolitan counties in Ohio had foreclosure rates higher than the state rate and the national rate. Summit County (Akron) topped the list, with one foreclosure filing for every 187 households. Cuyahoga County (Cleveland) had the highest absolute number of filings, with 2,541 in the month of December 2007 alone.

County (major city)	Foreclosure Filings December 2007	Households per Filing	Rank
Summit (Akron)	1,286	187	1
Van Wert	65	195	2
Stark (Canton)	755	215	3
Fayette	51	243	4
Cuyahoga (Cleveland)	2,541	244	5
Lucas (Toledo)	831	244	6
Union	66	273	7
Franklin (Columbus)	1,801	285	8
Montgomery (Dayton)	819	309	9
Lorain (Lorain)	355	338	10
Muskingum (Zanesville)	99	359	11
Fairfield (Lancaster)	139	393	12
Trumbull (Warren)	236	410	13
<b>Statewide</b>	<b>12,066</b>	<b>415</b>	
Warren	173	416	14
Richland (Mansfield)	126	435	15
Hamilton (Cincinnati)	797	481	16
Clermont	159	482	17
Greene (Xenia)	123	518	18
Highland	34	533	19
Mahoning (Youngstown)	208	547	20
<b>United States</b>	<b>215,749</b>	<b>577</b>	

Source: RealtyTrac

## Percentage increase in foreclosure filings, 1995-2006

PolicyMatters Ohio gathered data showing that, from 1995 through 2006, foreclosure filings quadrupled in 70 of Ohio's 88 counties. The highest percentage increases in foreclosure filings tended to occur in smaller counties, which were expanding off a smaller base than the larger counties.

But the 10 largest counties also experienced high increases. This ranged from Lucas County, where the 2006 total was more than three times the 1995 total, to Stark County, where the 2006 total was over seven times the 1995 total. Seven of the 10 largest counties had percentage increases that were higher than the statewide average.

Rank in State (of 88)	County (City within)	2006 Filings	Increase 1995-2006
1	Henry	109	1457%
2	Fayette	195	1119%
3	Licking	1,081	1115%
4	Huron	333	1010%
5	Williams	185	988%
6	Pickaway	308	962%
7	Wayne	426	939%
8	Fulton	176	935%
9	Union	266	923%
10	Highland	317	923%
20	Stark (Canton)	2,799	637%
28	Summit (Akron)	4,833	549%
34	Franklin (Columbus)	8,875	508%
35	Mahoning (Youngstown)	1,946	506%
39	Butler (Hamilton)	2,580	477%
46	Lorain (Lorain)	2,252	445%
53	Montgomery (Dayton)	5,076	435%
-	<b>Statewide</b>	<b>79,072</b>	<b>395%</b>
70	Cuyahoga (Cleveland)	13,610	307%
72	Hamilton (Cincinnati)	5,876	294%
82	Lucas (Toledo)	3,618	211%

Source: Policy Matters Ohio ([www.policymattersohio.org](http://www.policymattersohio.org)), based on data from Supreme Court of Ohio

## Recent foreclosure filings show Ohio metro areas in top third nationwide

RealtyTrac's data on new foreclosure filings for 2007 show how Ohio's larger metropolitan statistical areas (MSAs) stack up among the largest 100 metropolitan areas in the U.S. All six of Ohio's metropolitan areas analyzed are in the top third for foreclosure rates nationwide. As with the December 2007 data, the Akron and Cleveland areas had more foreclosures per household than Ohio's other large cities. The foreclosure rate doubled or nearly doubled in Ohio's largest metro areas from 2006 to 2007.

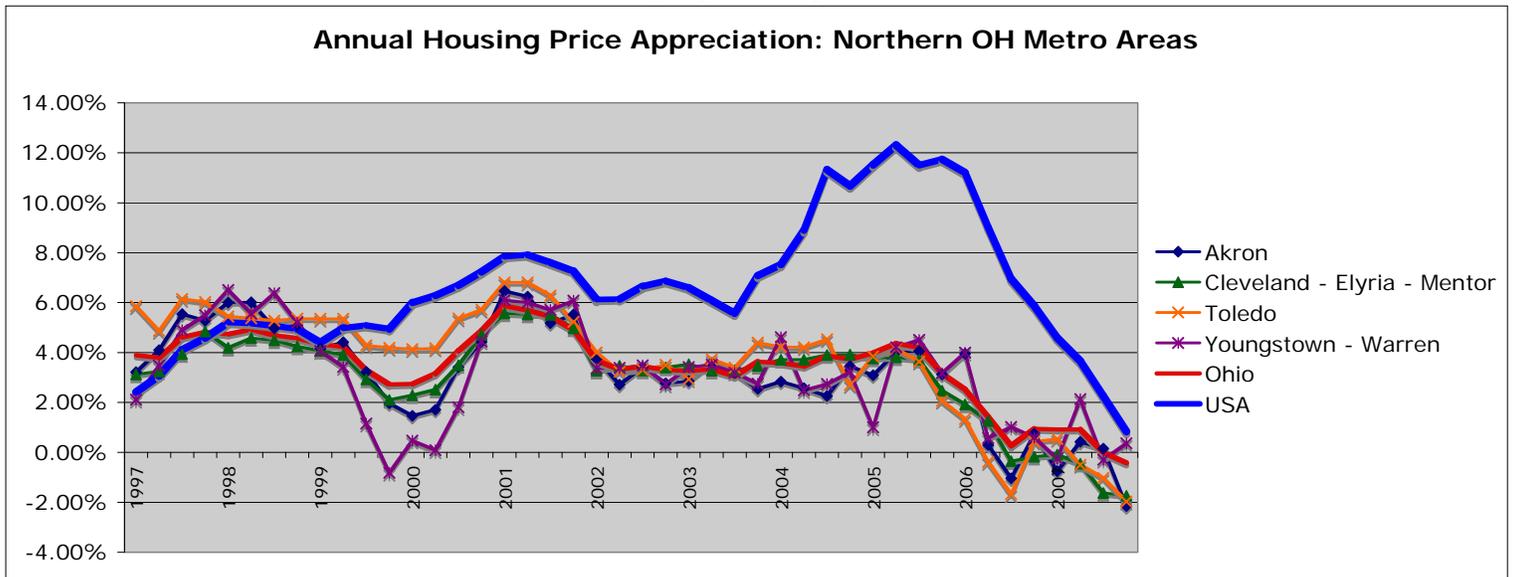
Rank	MSA	Foreclosure Filings	% of Households	% Change from 2006
1	DETROIT/LIVONIA/DEARBORN, MI	72,616	4.9	68
2	STOCKTON, CA	22,184	4.9	271
3	LAS VEGAS/PARADISE, NV	59,983	4.2	169
4	RIVERSIDE/SAN BERNARDINO, CA	102,506	3.8	186
5	SACRAMENTO, CA	49,532	3.2	273
<b>6</b>	<b>CLEVELAND/LORAIN/ELYRIA/MENTOR, OH</b>	<b>49,071</b>	<b>3.0</b>	<b>112</b>
7	BAKERSFIELD, CA	13,682	3.0	245
8	MIAMI, FL	51,662	2.7	106
9	DENVER/AURORA, CO	49,519	2.6	28
10	FORT LAUDERDALE, FL	45,367	2.6	110
<b>12</b>	<b>AKRON, OH</b>	<b>12,359</b>	<b>2.3</b>	<b>108</b>
<b>15</b>	<b>DAYTON, OH</b>	<b>14,285</b>	<b>2.1</b>	<b>146</b>
<b>19</b>	<b>TOLEDO, OH</b>	<b>10,056</b>	<b>1.9</b>	<b>117</b>
<b>25</b>	<b>COLUMBUS, OH</b>	<b>24,055</b>	<b>1.8</b>	<b>86</b>
<b>33</b>	<b>CINCINNATI, OH</b>	<b>21,392</b>	<b>1.5</b>	<b>104</b>
	TOP 100 METROS	1,774,778	1.4	78
	U.S. TOTAL	2,203,295	1.0	79

Source: RealtyTrac data for January – December 2007

## Housing price growth has dropped

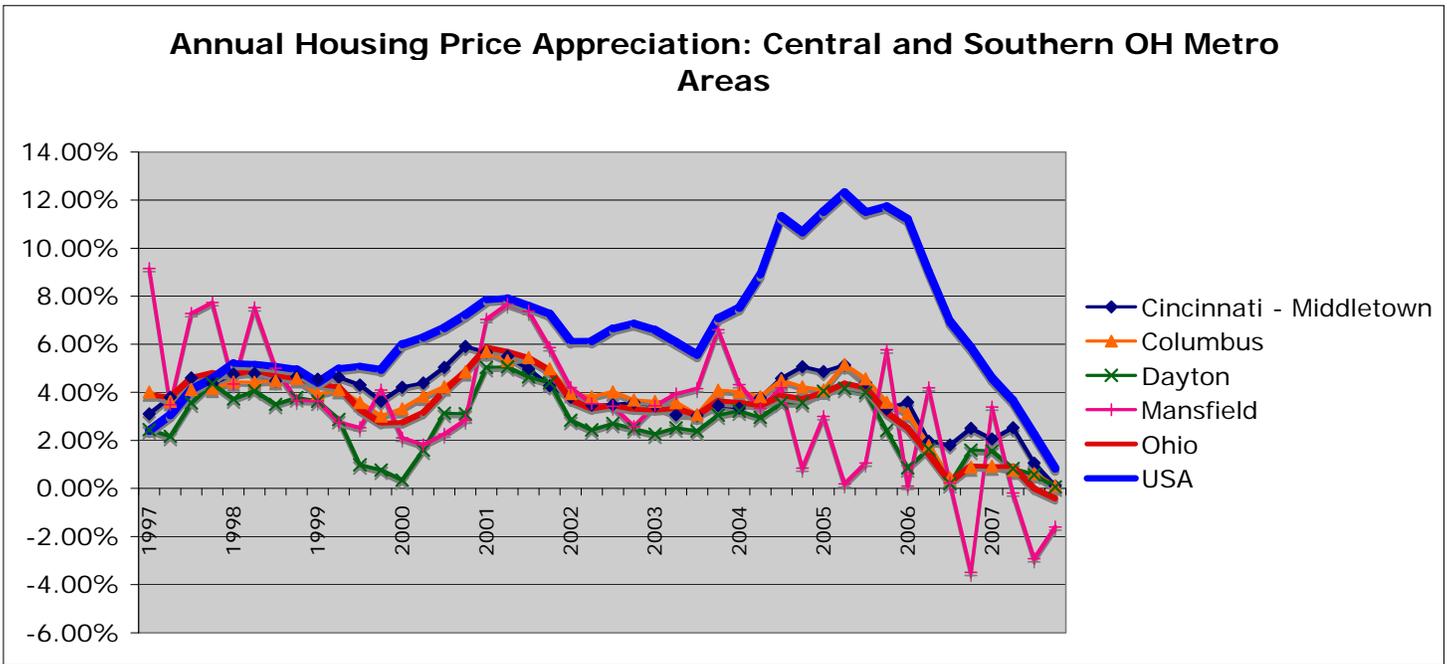
Ohio's housing price growth has trailed the national rate since 1999, experiencing little of the nationwide boom period from 2004 to 2006. Because of Ohio's failure to reach these dizzying heights, the state's price drop off since 2006 has been less dramatic than the national nosedive. Ohio's housing price growth is still, however, flirting with negative territory.

Metropolitan areas in the northernmost part of Ohio have generally followed the statewide trend, though the Youngstown area had a rougher patch than the rest of the state in 1999-2000, and the Cleveland and Toledo areas have had larger price drops than the rest of the state since 2005.



Source: Office of Federal Housing Enterprise Oversight ([www.ofheo.gov](http://www.ofheo.gov)): Housing Price Index

The graph for the central and southern parts of the state show that metro areas there have had similar experiences to the state as a whole, though Mansfield has had a more erratic pattern.



Source: Office of Federal Housing Enterprise Oversight ([www.ofheo.gov](http://www.ofheo.gov)): Housing Price Index

The housing market's fortunes in Ohio's metro areas are summarized in the table below. Canton fared the best in 2007, but still was in the bottom half of all metro areas in the U.S., with a meager growth rate of less than one percent. All of Ohio's metro areas lag the national one-year and five-year growth rates significantly.

<b>Metro Area</b>	<b>Annual Growth Rank (of 291)</b>	<b>Annual Growth to 31 December 2007</b>	<b>Growth 4th Qtr 2007</b>	<b>5-Yr Growth</b>
Canton - Massillon, OH	175	0.6%	1.5%	8.5%
Youngstown - Warren - Boardman, OH-PA	182	0.4%	0.0%	10.5%
Springfield, OH	184	0.3%	-2.5%	7.8%
Cincinnati - Middletown, OH-KY-IN	189	0.1%	0.3%	15.2%
Columbus, OH	190	0.1%	0.3%	13.5%
Dayton, OH	191	0.1%	0.5%	11.1%
Mansfield, OH	215	-1.6%	1.4%	8.0%
Cleveland - Elyria - Mentor, OH	216	-1.7%	0.0%	8.1%
Lima, OH	222	-2.0%	0.8%	16.0%
Toledo, OH	223	-2.0%	-0.3%	7.7%
Akron, OH	224	-2.2%	-0.1%	7.8%
Ohio	41st of 50	-0.4%	0.4%	11.5%
USA	n/a	0.8%	0.1%	41.4%

Source: Office of Federal Housing Enterprise Oversight ([www.ofheo.gov](http://www.ofheo.gov)): Housing Price Index

## Likely explanations for Ohio

There are several factors that, in combination, form a likely explanation for the rise in foreclosures in Ohio in recent years.

First, is the increasing prevalence of sub-prime loans, which, as shown earlier in this report, are more likely to enter into foreclosure proceedings. Policy Matters Ohio reports that in 1999 Ohio had the third-highest sub-prime share of refinancing loans in the nation. This is likely to hit racial minorities the hardest. According to analysis of 1998 HMDA data by Policy Matters Ohio, sub-prime lenders accounted for two-thirds of the top 50 refinancing lenders in Ohio's minority census tracts. Of the 50 Ohio sheriff departments responding to Policy Matters' 2005 survey, 31 ranked predatory lending (which commonly uses sub-prime loans) as the highest contributing factor to foreclosures. Adjustable-rate mortgages (ARM) pose particular difficulties, as they often have low initial "teaser rates" that are fixed for the first two or three years, followed by increases as often as every six months.

The second factor is rising consumer debt, including the use of credit cards, which has been pervasive throughout the U.S.

Third, is the recent downturn in the housing market. With a sluggish housing market come slower equity gains (or even a loss of equity) and an increased likelihood of foreclosure, particularly if home equity loans were acquired to finance consumer purchases.

Median household incomes across Ohio grew much slower than housing prices in the past several years, around 2% annually. This has decreased housing affordability and has probably led to relatively high debt-to-income ratios for many borrowers.

Periods of unemployment may also be taking their toll. The state unemployment rate increased from 4% in 2000 to over 6% in 2004 and 2005. Ohio's unemployment rate has eased slightly since 2005, but the January 2008 rate of 5.5% was still the ninth highest in the nation. Between the official start of the recession in March 2001 and the end of December 2003, Ohio lost 236,700 jobs, of which two-thirds were in the manufacturing sector.

Together, these factors add up to a precarious financial situation for many of Ohio's households.

## Personal bankruptcy rates

The financial difficulties of Ohio households are reflected in the fact that personal bankruptcy rates in 2006 were much higher in the state than in the nation as a whole. (Information from 2007 is not yet available.) Ohio's largest counties make up most of the state's counties with the highest bankruptcy rates. The state's largest cities are all in counties with a higher bankruptcy rate than the statewide average.

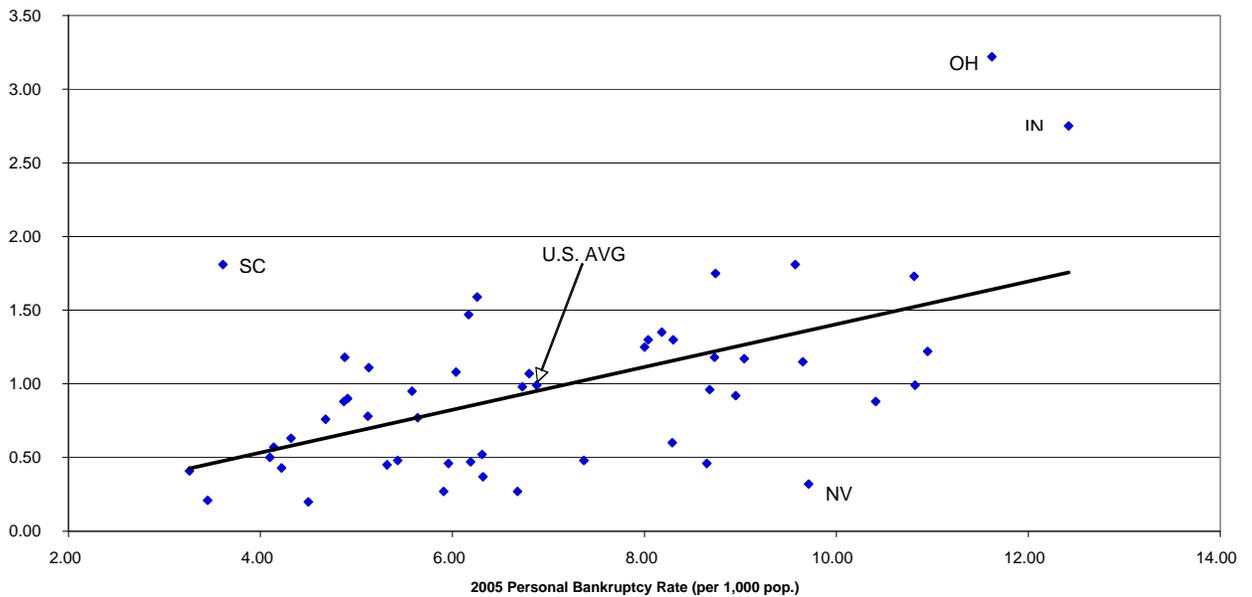
Source: FDIC RECON ([www2.fdic.gov/recon](http://www2.fdic.gov/recon)), from Administrative Office of the U.S. Courts

Rank in State (of 88)	County (City within)	Filing Rate (per 1,000 pop.)
1	Stark (Canton)	3.70
2	Columbiana	3.65
4	Cuyahoga (Cleveland)	3.56
3	Franklin (Columbus)	3.56
5	Muskingum	3.52
6	Summit (Akron)	3.51
7	Montgomery (Dayton)	3.46
8	Union	3.45
9	Madison	3.45
10	Logan	3.44
11	Mahoning (Youngstown)	3.44
16	Lucas (Toledo)	3.14
19	Hamilton (Cincinnati)	3.11
-	<b>Statewide</b>	<b>2.98</b>
-	<b>United States</b>	<b>2.00</b>

## Foreclosure rates are correlated with personal bankruptcy rates

Foreclosure rates appear to be somewhat correlated with personal bankruptcy rates. Generally, states with higher personal bankruptcy rates in 2005 had higher foreclosure inventories at the end of 2005. It would not be surprising if the financial and economic factors leading to high bankruptcy rates in an area also led to high foreclosure rates.

Some of the outliers from this correlation are South Carolina, which had a foreclosure inventory rate nearly twice that of the U.S. despite having a significantly lower bankruptcy rate; and Nevada, which had one of the lowest foreclosure inventory rates despite a high bankruptcy rate. Ohio and Indiana both had relatively high bankruptcy rates and extraordinarily high foreclosure rates.



Source: Mortgage Bankers Association, National Delinquency Survey Results, Fourth Quarter 2005; and FDIC RECON ([www2.fdic.gov/recon](http://www2.fdic.gov/recon)), from Administrative Office of the U.S. Courts

Reasons for this growth in foreclosures include divorce, medical problems, and easy access to credit but in Cuyahoga County the top reasons are job loss or a weak economy and sub prime lending. Although NHSGC services are not related to assistance with job creation the organization does provide programs that help homeowners make the most of the income they earn and prevent the loss of the wealth they have created through homeownership.

### **Programs Undertaken by Neighborhood Housing Services of Greater Cleveland to Reduce or Prevent Foreclosures**

#### **LOCAL EFFORTS**

From a local perspective, NHSGC is involved in the Cuyahoga County Foreclosure Prevention program (as well as various organizations noted below) that institutes the 2-1-1 “First Call For Help” line that acts as a feeder system to the organization’s foreclosure prevention counseling

services and programs. The measure of effectiveness of this outreach is that NHSGC is the top performer (according to year to date summary – first quarter 2008 report) of all agencies participating in this foreclosure program in:

- Mortgage Foreclosure Assistance
- Predatory Lending Assistance
- Mortgage Payment Assistance
- Total Agency Referrals

**Top 5 Types of Referrals 2008 (2,751 Total Agency Referrals)**  
**Source: United Way First Call for Help Report**

**1. Mortgage Foreclosure Assistance (1,156 referrals)**

**Agencies**

Neighborhood Housing Services ▪ 26%  
ESOP ▪ 15%  
Community Housing Solutions ▪ 12%  
Cleveland Housing Network ▪ 12%  
NID Housing Counseling ▪ 8%  
Northern Ohio Affordable Housing ▪ 8%  
Consumer Credit Counseling Service ▪ 7%  
Consumer Protection Assn. ▪ 6%  
Cleveland Assn. of Community Organizations for Reform Now ▪ 3%  
Spanish American Committee ▪ 2%  
Home Repair Resource Center ▪ 1%  
Legal Aid Society (non-direct referral) ▪ 1%  
Cuyahoga County Treasurer ▪ <1%  
United States Dept. of Housing ▪ <1%

**ZIP Codes (Top 5)**

44128 ▪ 8%  
44105 ▪ 7%  
44112 ▪ 5%  
44120 ▪ 5%  
44137 ▪ 5%

**2. Mortgage Payment Assistance (1,043 referrals)**

**Agencies**

Neighborhood Housing Services ▪ 32%  
Cleveland Housing Network ▪ 23%  
Community Housing Solutions ▪ 19%  
ESOP ▪ 16%  
Spanish American Committee ▪ 5%  
Consumer Protection Assn. ▪ 4%  
Parma – City of ▪ <1%  
Neighborhood Development Services <1%  
Council for Economic Opportunities ▪ <1%

Neighborhood Conservation Services of Barberton ▪ <1%

**ZIP Codes (Top 5)**

44105 ▪ 9%  
44121 ▪ 7%  
44128 ▪ 7%  
44108 ▪ 6%  
44137 ▪ 6%

**3. Predatory Lending Assistance (169 referrals)**

**Agencies**

Neighborhood Housing Services ▪ 28%  
Housing Advocates ▪ 22%  
ESOP ▪ 21%  
Community Housing Solutions ▪ 21%  
Cleveland Assn. of Community Organizations for Reform Now ▪ 3%  
NID Housing Counseling Agency ▪ 2%  
Case Western Reserve University ▪ 2%  
Ohio Attorney General's Office ▪ 1%

**ZIP Codes (Top 5)**

44128 ▪ 11%  
44105 ▪ 9%  
44134 ▪ 8%  
44110 ▪ 8%  
44120 ▪ 7%

**4. 4. Utility Bill Payment Assistance (44 referrals)**

Cleveland Housing Network ▪ 39%  
Salvation Army ▪ 30%  
Consumer Protection Assn. ▪ 16%  
Council for Economic Opportunities ▪ 7%  
Journey of Hope ▪ 5%  
Ohio Dept. of Development ▪ 2%  
Harry Ratner Fund ▪ 2%

**ZIP Codes (Top 5)**

44105 ▪ 18%  
44128 ▪ 9%  
44123 ▪ 9%  
44102 ▪ 7%  
44108 ▪ 7%

**5. Loan Counseling (18 referrals)**

**Agencies**

Community Housing Solutions ▪ 33%

- Neighborhood Housing Services ▪ 22%
- Cleveland Housing Network ▪ 22%
- Northern Ohio Affordable Housing ▪ 17%
- Housing Advocates ▪ 6%

**ZIP Codes (Top 5)**

- 44146 ▪ 44%
- 44118 ▪ 17%
- 44105 ▪ 17%
- 44132 ▪ 11%
- 44017 / 44108 ▪ 6%

**Top 10 Agency Referrals 2008 (of 2,751 Total Referrals)**

1. Neighborhood Housing Services ▪ 25%
2. Cleveland Housing Network ▪ 15%
3. Community Housing Solutions ▪ 14%
4. ESOP ▪ 14%
5. Consumer Protection Association ▪ 4%
6. NID Housing Counseling ▪ 4%
7. Northern Ohio Affordable Housing ▪ 3%
8. Consumer Credit Counseling ▪ 3%
9. Spanish American Committee ▪ 3%
10. Cleveland Assn. of Community Organizations for Reform Now ▪ 1%

**Location of Person Needing Assistance**

➤ Top 5 ZIPS ▪ 2008		➤ Top 5 Cities ▪ 2008	
1.	44105 ▪ 9%	1.	Cleveland ▪ 48%
2.	44128 ▪ 7%	2.	Euclid ▪ 6%
3.	44120 / 44121 ▪ 5%	3.	Maple Hts. ▪ 5%
4.	44108 ▪ 5%	4.	Cleveland Hts. ▪ 5%
5.	44137 ▪ 5%	5.	Parma ▪ 4%

**Referral Source**

How did you hear about us?	2006	2007	2008
Agency	34%	34%	42%
Media (Radio, TV)	45%	33%	26%
Printed Materials (flyer, postcard)	8%	9%	13%
Phone Book/Operator	4%	5%	5%
Family/Friend	5%	5%	8%
Web	1%	3%	2%
Unknown	3%	11%	4%

The 2-1-1 program allows NHSGC to access clients throughout Cuyahoga County. Cuyahoga County residents also have accessed NHSGC services through the Homeownership Preservation Foundation hotline.

NHSGC has one of the most informative and useful websites in regards to foreclosure information and prevention. NHSGC receives over 800 new visitors per week (according to LiveStats) with the majority of those new visits to the foreclosure prevention area of our website.

NHSGC utilizes relationships with over 20 community development corporations in the City of Cleveland, to provide on the ground, grass roots outreach to the residents of the city of Cleveland. NHSGC also works with the 21 city councilpersons of the city of Cleveland to disseminate information and provide yet another marketing outlet for NHSGC programs and services. NHSGC advertises in various local community newspapers, newsletters and local websites to further our programs and services' visibility.

Finally, NHSGC coordinates news events and editorials with the local news media including The Plain Dealer, Crain's Cleveland Business, The Free Times, The Sun News and local television stations which creates homeowner awareness of the programs and offers of NHSGC.

#### **STATEWIDE EFFORTS**

NHSGC continues to play a leadership role in the Ohio Home Rescue Fund of NeighborWorks® Ohio Coalition includes 12 organizations across the state of Ohio. NHSGC is the administrator of \$4.6 million of mortgage assistance funds (rescue funds), implementing, assisting and providing direction to agencies across the state. Strategically placed throughout Ohio, twelve nonprofit organizations have been collaborating independently with public and private funders, lenders and non-profit practitioners to develop and implement local strategies to reduce the incidence of foreclosure for the past ten years.

In 2005, all 11 of the NeighborWorks® organizations in Ohio formed a statewide coalition to share best practices, align efforts and leverage their strategic partnerships to achieve a common goal of reducing foreclosures among low- and moderate-income families across Ohio. These organizations invited COAD to participate so as to have complete statewide coverage.

The Ohio Foreclosure Prevention Initiative organizations began marketing the program through the following:

- Public service announcements
- Billboard advertising
- Public postering/tear-offs
- Large distribution literature drops
- Community and grassroots meetings
- Special events
- Community Workshops

- Mailings
- Collaborations with other partners (lending, insurance, realtors/realists, DJFS)
- Distribution of information by elected officials

The National Ad Council Campaign promoting the Homeownership Preservation Foundation’s Credit Counseling Resource Center (CCRC) hotline (888.995.HOPE) and co-sponsored by NeighborWorks® America started in June 2007 throughout the nation, including Ohio. Through this campaign, each participating organization in Ohio has the ability to locally brand collateral material for the campaign in Ohio.

Also, the State of Ohio’s initiated the Save the Dream hotline, 888.404.4674. This number, though instituted across the State of Ohio, is a major means of connecting homeowners to over 41 agencies’ foreclosure prevention programs and services.

The success of this program is measured in many different ways. The total number of clients counseled in Ohio through the Homeownership Preservation Foundation’s CCRC and the Ohio Foreclosure Prevention Initiative organizations in 2006-07 is 3,972 residents of Ohio. This number is represented by the Ohio organizations counseling 1,022 residents. For the calendar year of 2007 28,235 calls were made to the hotline from Ohio, making Ohio the third greatest user of the hotline, behind California and Florida.

As an example, the distribution of Office of Housing and Community Partnership’s (Ohio Department of Development) portion of the Ohio Home Rescue funds for the year ending June 30, 2008, from the program’s inception will be \$1.5 million, \$700,000 in year 1, \$800,000 in year 2 and an anticipated \$1,000,000 in year 3. Actual numbers indicate an increase in demand for funds as the program progressed.

Other successful measures in calendar year 2007 for the Ohio coalition:

Number of Families Receiving Counseling	2,810
Number of Foreclosures Avoided	1,073
Number of Rescue Funds/Applicants Committed	395

An ancillary success of this program has been the recognition of this crisis on the local, regional, state and national levels. The Ohio Foreclosure Prevention Initiative organizations’ efforts have been highlighted in numerous media outlets including local and national publications/newspapers, local and national broadcast media, as well as federal congressional recognition.

**Major Deliverables for 2006-07 included:**

1. Continued to provide a scaleable foreclosure prevention program in key markets and across the state of Ohio in order to increase borrower contact rates with lenders and improve the success of loan workouts.
2. Provided 24 hour, 7 days a week, telephone counseling and triage to 3,972 distressed borrowers.

3. Assisted 1,022 families with coordinated on the ground, face-to-face foreclosure prevention counseling services through the NeighborWorks® network and other nonprofit partners.
4. Continued a dual local and statewide public relations campaign to reach at-risk borrowers. Integrate National Ad Council campaign with Ohio efforts.
5. Provided access to national training opportunities through NeighborWorks® America's nationally recognized training institutes.
6. Continued to provide additional statewide Ohio Home Rescue Fund financing to assist up to 250 distressed borrowers in order to help them become current with their mortgage obligations and avoid foreclosure Applied and secured for additional funding to provide those that are not eligible for OHCP awarded program due to income limits.
7. Promote/document the successful, replicable statewide model that the Ohio Foreclosure Prevention Initiative instituted with the support by OHCP, throughout the NeighborWorks® America national network (NeighborWorks® America has affiliated organizations in every state of the nation including Puerto Rico).

Year 2 challenges continued to be: areas of density of potential clients of the Ohio Home Rescue Funds (distribution in urban areas, where the crisis is more prevalent gave the ability to access more clients than our rural counterparts); varying levels of government support in marketing/outreach efforts (various areas embraced the campaign, while others were not as warm due to the start up nature of the collaborative/or the urgency of the foreclosure crisis); timing of loan processing is contingent on client preparation and submission of needed documents after initial application is made (this has delayed the origination of loans for some borrowers); and, finally the saturation of “help” from for profit organizations and a barrage of scams to “cure” the foreclosure crisis.

The NeighborWorks® Ohio Foreclosure Prevention Initiative includes the East Akron Neighborhood Development Corporation, Neighborhood Conservation Services of Barberton, The HomeOwnership Center of Greater Cincinnati, Neighborhood Housing Services of Greater Cleveland, St. Mary Development Corporation in Dayton, Neighborhood Housing Services of Toledo, Neighborhood Housing Services of Hamilton, Neighborhood Development Services in Ravenna, Neighborhood Housing Partnership of Greater Springfield, Columbus Housing Partnership, Rural Opportunities, Inc. of Ohio and the Corporation for Ohio Appalachian Development.

## *Summary of Ohio Home Rescue Fund Program*

### **Office of Housing and Community Partnership**

#### **Terms:**

- \$3,000 or 3 months of mortgage/interest/taxes – whichever is less
- 0%, 3 year, deferred, forgivable second mortgage
- Must be recorded

#### **Income Qualifications:**

- 65% or below area median income (AMI)
- Window of qualification – previous 365 days of income at application

**Other Qualifications:**

- Documentable trigger event
- Budget wherewithal to maintain home once “rescued”
- Must agree to post-rescue counseling
- Other documents, including hardship letter needed

**Ohio Housing Finance Agency**

(Follow same processing, predatory screen, etc. as OHCP with noted exceptions below)

**Terms:**

- \$3,000 or 3 months of mortgage/interest/taxes – whichever is less or if the mortgage/interest/taxes is more than \$1,000 a month - \$5,000 or 3 months of mortgage/interest/taxes – whichever is less
- 0%, deferred, due on sale or transfer second mortgage
- Must be recorded
- Must be assigned to OHFA

**Income Qualifications:**

- 65% to 115% area median income (AMI)
- Exceptions:
  - Up to 140% AMI in HUD target areas
  - No income limit if a first mortgage was obtained through OHFA first time homebuyer program
  - Window of qualification – previous 365 days of income at application

**Other Qualifications:**

- Documentable trigger event
- Budget wherewithal to maintain home once “rescued”
- Must agree to post-rescue counseling
- Other documents, including hardship letter needed

Additionally, NHSGC was honored to represent various stakeholders while participating on Governor Strickland’s Ohio Foreclosure Prevention Taskforce. This allowed NHSGC to have an impact on statewide solutions, and to also develop relationships to further our breadth and reach to underserved residents.

**NATIONWIDE EFFORTS**

From a national perspective, NHSGC is part of the NeighborWorks® network, a grantee of the NeighborWorks® Center for Foreclosure Solutions, a participant and branded organization in the

National Ad Council campaign, as well as having a position on the National NeighborWorks® Association board. NHSGC also provides its' national House of Representatives and Senators with updates and overviews that are shared on a district level for constituent services. We have also testified to the effectiveness of counseling and the desire of GSE reform that re-evaluates the exclusion of mandatory counseling in the GSE products.

### **Center for Foreclosure Solutions - Ohio Foreclosure Prevention Efforts**

NeighborWorks® America has established the NeighborWorks® Center for Foreclosure Solutions, in partnership with the private sector; to preserve homeownership by NeighborWorks® coordinated foreclosure intervention strategies in communities nationwide. NeighborWorks® America is targeting foreclosure hotspots-- those communities experiencing significant and rapid increases in delinquencies and foreclosures.

In Ohio, 10 NeighborWorks® organizations including the NHSGC collaborating with lenders, state and local government, other partners, with support from NeighborWorks® America, initiated a statewide foreclosure prevention effort to address rising foreclosures across the state. In just the first three months of the Ohio program, 584 delinquent borrowers were counseled.

In order to address foreclosures more broadly, through a partnership with the Homeownership Preservation Foundation, NeighborWorks® America has promoted a national hotline to assist homeowners in distress, helping them contact their mortgage servicers and providing them with referrals to local NeighborWorks® organizations for face-to-face counseling, rescue funds and help navigating local resources. For example, Lorraine from Ravenna, Ohio received a \$2,100 loan from her local NeighborWorks® organization that allowed her to set up new mortgage payments with her lender. Lorraine is also currently enrolled in budget counseling.

To assist homeowners in distress across the country, NeighborWorks®, in cooperation with the National Ad Council, has embarked on a public awareness campaign for the toll-free hotline. We know that if we can educate homeowners in financial distress, we can help many avert foreclosure. The Ad Council campaign is being financed, almost entirely, by private sector funds from NeighborWorks® partners. In addition to the national campaign, NeighborWorks® is supporting the local implementation of foreclosure prevention strategies to ensure greater attention is focused on select hotspots. NeighborWorks® America is also conducting in-depth industry research and training foreclosure counselors around the nation. Through these training courses, NeighborWorks® America is creating a national standard for foreclosure counseling and developing best practices for this growing industry. Our research projects are aimed at better understanding the complexities surrounding foreclosures and developing an early warning system to predict future foreclosure hotspots.

After its kickoff on April 11, the Ohio campaign sponsored by NeighborWorks® America and the Homeownership Preservation Foundation gained momentum in May, June and July.

Total Ohio Calls to 888-995-HOPE hotline

21,713 total calls since January 1, 2008  
5,963 total counseling sessions completed

Loan Status at time of first call (through May, 2008):

Less than 30 days late:	18%
30-60 days late:	22%
61-120 days late:	23%
Over 120 days late:	29%
Remainder:	
Sale Pending	3%
Bankruptcy	1%
In Workout Plan	2%
Unknown	3%

NeighborWorks America was named in the FY 2008 Consolidated Appropriations Act to administer the National Foreclosure Mitigation Counseling program. The legislation requires that NeighborWorks America grant at least \$167,800,000 to qualifying organizations that provide mortgage foreclosure mitigation assistance primarily in states and areas with high rates of defaults and foreclosures primarily in the subprime housing market. These funds are targeted to provide foreclosure mitigation counseling to help eliminate the default and foreclosure of mortgages of owner-occupied single-family homes that are at risk of foreclosure. NeighborWorks America received grant requests totaling nearly \$350 million, demonstrating a very high demand for resources to support foreclosure counseling services.

On February 26, 2007, NeighborWorks America announced National Foreclosure Mitigation Counseling program grants totaling \$130,438,408 to 130 organizations (including HUD-approved housing counseling intermediaries, State Housing Finance Agencies, and NeighborWorks organizations.)

<b>Summary of National Foreclosure Mitigation Counseling Program Applications</b>				
	<b>Number of Applicants</b>	<b>Number Awarded Funds</b>	<b>Dollar Amount requested (rounded)</b>	<b>Dollar Amount Awarded (rounded)</b>
State Housing Finance Agencies	36	32	\$70.0 million	\$38.7 million
HUD-Approved Housing Counseling Intermediaries	17	16	\$254.1 million	\$80.3 million
NeighborWorks Organizations	90	82	\$23.8 million	\$11.4 million
<b>Totals</b>	<b>143</b>	<b>130</b>	<b>\$348 million</b>	<b>\$130.4 million</b>

Up to \$5 million in National Foreclosure Mitigation Counseling funds is being used to build the capacity of mortgage foreclosure and default mitigation counseling agencies.

It is anticipated that the awarding more than 3,000 certificates for foreclosure prevention counseling training through the National Foreclosure Mitigation Counseling program. More than 475 people have been trained already this calendar year. This training builds on NeighborWorks America's existing training programs, which issued more than 12,000 training certificates to community development professionals in FY 2007.

Nationally, NHSGC has been quoted or appeared in national publications such as The Wall Street Journal, the Christian Science Monitor, USA Today, CNNMoney, and The Economist in discussing our efforts in foreclosure prevention, solutions and adaptations.

### **Describe Experience Working with Borrowers to Prevent Foreclosure**

NHSGC's "footprint" for foreclosure prevention and intervention is a four county area including Cuyahoga, Lorain, Erie and Huron counties. The majority of borrowers that NHSGC counsels have experienced a life crisis, or trigger event including; loss/under employment, uninsured medical costs, loss of spouse (death/divorce). Though a majority of NHSGC's clients are from designated cities, NHSGC is seeing an increase of suburban homeowners seeking assistance. In counseling sessions, these homeowners have stated that they have exhausted savings, retirement and cash advances and have no where else to turn. This is having a devastating effect on the future of their families, which is in part due to their reluctance either to the knowledge that there are resources available to them early on, or that these programs and services are only aimed at low to very low income individuals, or finally, as in the case across the board, that there is a pride barrier that inhibits clients to seek help until all resources have been drained.

Neighborhood Housing Services of Greater Cleveland's foreclosure prevention housing counseling program provides efficient and quality individual and group counseling and is designed to optimize both the homeowner's and counselor's time to achieve a positive outcome as quickly as possible. Our housing counselors are certified and trained in providing foreclosure prevention counseling through the NeighborWorks America Training Institute. The Institute is a nationally recognized leader in providing training, certification and resources to community development professionals. Their training and curriculum is considered the highest standard of certification available for housing counseling professionals and is recognized by HUD.

At NHSGC we structure our foreclosure prevention housing counseling in the following manner. For those seeking our assistance we offer a foreclosure prevention orientation twice a week. One session is held at 12pm and the other at 6pm in the evening. At this one-hour group orientation homeowners are given an overview of the services provided by NHSGC as well as an overview of the foreclosure process. This includes defining terms for people such as foreclosure, understanding timelines in the foreclosure process and learning about loss mitigation options. The attendees do receive handouts on this process. In addition, homeowners are asked to bring specific documents to the orientation such as proof of income, bills, loan statements, etc. so a file can be started at this orientation. This helps the counselor prepare for the individual counseling session.

The group intake orientation benefits the homeowner through the opportunity to ask questions about foreclosure and options as well knowing what the counselors expect of them as well as what the homeowners can expect from the counselors. An emphasis is placed on the homeowner being very involved in this process. It also helps the counselors determine if a homeowner might be better assisted at another agency such as Legal Aid and an immediate referral can happen prior to any time spent on counseling. In addition this process helps reduce the number of no-shows at individual counseling appointments because homeowners that are serious about saving their homes are the ones following through with the process.

Once a homeowner attends the orientation and a file is started a counselor will call the homeowner to schedule an individual counseling session. During this session, the counselor will review with the homeowner their budget, including looking at copies of their bills and bank statements, as well as making sure the authorization letter is signed by the homeowner giving the counselor permission to speak with the lender or servicer. The counselor will also review their credit report. If a surplus of funds are available after reviewing the budget (meaning the homeowner can now afford the loan) the counselor will contact the lender or servicer to see if a workout is possible either through a loan modification or forbearance or repayment agreement.

The counselor will also know at this time if the homeowner has any funds saved to help contribute to a down payment for a workout. If no surplus is available the counselor will both go through their budget and determine where expenses can be cut or advise the homeowner to seek additional income through other resources. If neither of these is an option and the homeowner can truly not afford the home any longer, the counselor will advise the homeowner to try and sell the property or seek a deed-in-lieu of foreclosure from the lender. Either way the counselor is up front with the homeowner to start saving money for a security deposit and rent if homeownership is no longer an option. The counselor also will give them resources for affordable rental housing in the area.

If a lender agrees to a workout with a homeowner the counselor will then determine if home rescue fund assistance is needed to ensure the workout is completed. If the homeowner qualifies for this assistance either through the Ohio Home Rescue Fund Program or the Cuyahoga County Rescue Fund Program the appropriate applications will be filled out and given to the loan officer for review. If the Loan Committee approves the application for funds a check will be cut, loan papers filled out with the homeowner and the check will be sent with copies of the agreement if necessary. Many times homeowners simply need assistance in bringing their mortgage current to get out of the cycle of paying late fees.

Beginning the following month after receiving assistance the counselor will follow-up with the homeowner for the next 3 months to make sure they are making their payments and staying within their budget. At this time a homeowner might also be placed in our Refinance Class if the homeowner needs to refinance within the next year. This program helps homeowners who are in unsustainable loan terms refinance into better sustainable terms with our lender partners.

Over the past several months the housing counselors have been able to develop better relationships with lenders and mortgage servicing agencies. Because of this they have seen better

responses and quicker turn around times for requested information from most lenders and servicers. This in the end brings about a quicker positive resolution for both the lenders and homeowners. As stated earlier NHSGC has been able to assist 87 households since January 2007 achieve a positive outcome with their lender through mortgage workouts.

NHSGC utilizes the database program NStep to manage counseling sessions and information on our clients. We have enclosed a sample intake screen, group counseling session or education screen, individual counseling screen, and our HUD 9902 counseling results screen to demonstrate our capability of managing and tracking not only our clients' progress but the results and outcomes of our programs as well.

### **Obstacles or Challenges to Prevent Foreclosures**

Obstacles and challenges are presented on the individual and institutional levels.

#### **Individually**

Borrowers are STILL waiting too long to contact a HUD approved housing counselor. At times, a "contact the lender" campaign has been in place, but from NHSGC's experience, a preference to contact a HUD approved housing counseling agency, to act as an intermediary, is much more preferred to contact a lender, especially if that lender was dubious, at best, in originating/underwriting/servicing the loan. Nothing is worse than doing nothing.

Lack of homeownership education, which in NHSGC's opinion is the greatest tool for foreclosure prevention, compounds the time of contact and contributes to the borrower's lack of knowledge of the true loan type, terms, resets, etc. of the current mortgage.

The increase of for-profit foreclosure prevention companies; preying on those that most can not afford to be scammed again. These unregulated, not unbiased, agencies are feeding on the misery of our borrowers, providing false hope for a price they can not afford. When the borrower actually has a small savings, these agencies are intervening on the borrower's behalf, only to the point of exhausting that savings, which could have been used for a successful workout or outcome with a HUD approved housing counseling agency.

#### **Institutional**

Lender/servicers are STILL reluctant to communicate with, inconsistent with their abilities, training, and knowledge of loss mitigation. It has been experienced many times, that the same case, taken to different loss mitigation specialists, will result in a different outcome. That is, of course, if the counselor is able to communicate with the lender/servicer/loss mitigation specialist.

#### **Timeliness**

There does not seem to be any urgency on the lender/servicer's behalf to resolve the foreclosure cases in a timely and/or efficient manner. NHSGC counselors continue to experience the uselessness of faxing any documentation and having an expectation that they will not have to fax the same information at least one more time to the lender/servicer. This is a critical step in establishing NHSGC as a borrower approved intermediary, therefore delaying the ability to reach resolution.

### Displaced Homeowners/Occupants

NHSGC continues to see displaced homeowners or tenants of properties of which have been foreclosed. As NHSGC attempts to provide a soft landing for those who have lost their homes, the issue to affordable housing for displaced homeowners and tenants remains under the radar screen of many in the policy realm of this crisis. Many tenants are not aware of the foreclosure proceedings until they receive an order to vacate, which normally gives the tenant 3 days to vacate the property before the county sheriff removes their ownings from the foreclosed property.

### **What Federal Legislative or Regulatory Reforms are Needed**

1. *Enforce existing predatory-lending laws, penalize egregious lenders and provide targeted help to victimized consumers.*

Aggressively prosecute lenders, brokers, appraisers, and other parties for fraud and/or abusive lending under existing laws. Lenders who have been involved in abusive lending tactics should be prosecuted and fined heavily. Any fines or settlements from these cases should be directed to help borrowers who have received unaffordable mortgages, support for nonprofits to assist with loan modifications, foreclosure-prevention counseling, legal assistance, and rescue funds for these victimized borrowers.

2. *Reform FHA and expand its refinancing offerings.*

The Federal Housing Administration (FHA) was marginalized over the last decade as subprime lending took over a huge piece of the market. FHA could offer more on the refinance side, as President Bush has proposed, by expanding its role in providing affordable mortgages to help troubled borrowers refinance onerous subprime loans.

3. *Provide funding to plan and implement strategies to reuse foreclosed and vacant properties.*

Experts are predicting up to three-quarter million vacant properties across the nation due to foreclosures in the next few years. The negative impact of these vacancies on communities will be potentially devastating in terms of the lost market value and tax revenues unless quick action is taken. Funding is critical to begin this planning and testing appropriate reuse strategies, which will vary based on community input and needs. NHSGC and the National NeighborWorks Association strongly support the Chairwoman's "Neighborhood Stabilization Act of 2008", H.R. 5818, and are working hard to ensure its inclusion in any national housing package.

4. *License all mortgage brokers and improve consumer disclosures.*

Given that the vast majority of home mortgages are now originated by mortgage brokers, and the inherent conflict of interest between brokers and borrowers, a national licensing system for mortgage brokers is desperately needed. J. Michael Collins, the principal researcher for PolicyLab Consulting Group, suggests that "individual brokers be licensed and their identity number needs to be on every loan for at least seven years (the average life of a loan). That way, they can be held accountable for seven years for any misrepresentation in the loan, not unlike tax preparers or other professionals." In addition, consumer disclosures that are

provided in loan applications and before closings need to be in simpler and more transparent language.

5. *Expand federal banking oversight to all lenders, including non-bank independent mortgage companies and extend CRA reviews to all lenders.*  
To a great extent, non-regulated lenders manufactured this foreclosure crisis by originating loans with extraordinarily loose underwriting standards. Federal banking regulators need to step up and provide oversight of these lenders.
6. *Increase oversight of the secondary mortgage markets and the ratings agencies.*  
The mistakes of the mortgage securitization industry have created havoc in world financial markets and also cry out for greater oversight and regulation.
7. *Develop suitability requirements for the mortgage lending industry.*  
Establishing a suitability standard would require brokers and lenders to perform a more thorough evaluation of a borrower's finances and his or her ability to repay a mortgage. They would presumably think twice about putting borrowers into inappropriate and unaffordable mortgages if they knew those borrowers could sue for damages.
8. *Require that all borrowers be qualified based on their ability to pay the fully indexed, fully amortizing payment on any mortgage.*  
Many problematic types of mortgages in the current foreclosure crisis (such as interest-only loans, Option ARMs and 2/28s) had low initial "teaser rates." Risky borrowers were approved for these mortgages based on the low initial payments rather than on the basis of the potentially higher payment when the mortgages were reset.
9. *Require escrow accounts for taxes and insurance on subprime mortgages.*  
Many subprime borrowers got in trouble because they were qualified for risky loans without including the additional monthly cost of property insurance and taxes. Borrowers with low credit scores and high combined loan-to-value (CLTV) ratios (above 80% CLTV) should be required to have escrow accounts for taxes and insurance.
10. *Invest in early intervention of foreclosures.*  
Timely financial advice, credit counseling and assistance with loan modifications can make a huge impact in preventing foreclosures. The cost of this early intervention work is a small fraction of the cost of the negative consequences of foreclosures — for lenders, local economies, and neighboring homeowners. According to a report by the Joint Economic Committee of U.S. Congress, "Foreclosures are costly — up to \$80,000 for all stakeholders combined... [while] estimates suggest that foreclosure prevention costs approximately \$3,300 per household." In short, it pays to prevent foreclosures.
11. *Focus more resources on preparing future homeowners.*  
Funding should be dramatically increased to community groups to expand homeownership counseling and educational classes to encourage families to reduce their debts, increase their savings and become stronger financially **before** they become homeowners.

NHSGC is working hard along with our other local community development corporations and in collaboration with state and national organizations to manage rising foreclosures and to sustain our local communities. I know that this Committee has aggressively pursued actions to improve affordable housing opportunities for all Americans. We hope that you will continue to tackle the issue of sustainability of homeownership for underserved Americans as well, and be cognizant of the collateral damage of this foreclosure crisis on our counties, cities, communities and neighborhoods.

Neighborhood Housing Services of Greater Cleveland appreciates the opportunity to testify on this important topic, and I would be happy to answer any questions you may have.